

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

XMB-02 PA-01 PRS-01 IO-11 AGR-05 ITC-01 /123 W

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R 051140Z FEB 76

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 4015

INFO USUN NEW YORK 1516

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LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMAMBAD 1285

E.O. 11652: N/A

TAGS: ENRG, PK

SUBJECT: PAKISTAN POSITION IN CIEC

REF: STATE 20560, 75 ISLAMABAD 5952, ISLAMABAD 5,
ISLAMABAD 35, ISLAMABAD 38, ISLAMABAD 619,
ISLAMABAD 720, ISLAMABAD 970,

1. SUMMARY: PAKISTAN'S POSITION IN THE CIEC COMMISSIONS
WILL REFLECT MORE THAN ANYTHING ELSE GOP CONCERN OVER
PAKISTAN'S ENORMOUS TRADE DEFICIT. TOP PRIORITY,
ACCORDINGLY, IS GIVEN TO REACHING AGREEMENT ON "EMERGENCY
MEASURES" FOR THE MSAS - RESOURCE TRANSFER MECHANISMS
WHICH CAN BE QUICKLY IMPLEMENTED AND WOULD MAKE SUBSTANTIAL
NEW FUNDS AVAILABLE TO PAKISTAN. PAKISTAN ALSO SUPPORTS
LONGER-TERM MEASURES DESIGNED TO MAKE THE WORLD ECONOMIC
SYSTEM OPERATE IN A MANNER MORE FAVORABLE TO PAKISTAN
(E.G. EXPANDED GSP). IN THE CONTEXT OF CIEC, THESE
ARE OF SECONDARY IMPORTANCE, HOWEVER. THE GOP SUSPECTS
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THAT THE OPEC COUNTRIES DO NOT TAKE PAKISTAN'S BALANCE

OF PAYMENTS PROBLEMS AS SERIOUSLY AS PAKISTAN DOES,
BUT WILL TRY TO KEEP ITS DIFFERENCES WITH
OPEC COUNTRIES TO A MINIMUM AND TO PRESERVE AS MUCH AS
POSSIBLE THE SOLIDARITY OF THE OPEC-LDC ALLIANCE.
ISLAMABAD REFTELS PROVIDE MORE BACKGROUND AND DETAIL ON
PAKISTAN'S POSITION. END SUMMARY.

1. THE ISSUE WHICH DWARFS ALL OTHERS FOR PAKISTAN'S
PARTICIPATION IN CIEC IS THE BALANCE OF PAYMENTS CRISIS
WHICH PAKISTAN AND OTHER MSAS NOW FACE. PAKISTAN'S
FIRST PRIORITY IS TO GET AGREEMENT AS SOON AS POSSIBLE
ON RESOURCES TRANSFER MECHANISMS WHICH WILL HELP
PAKISTAN TO FINANCE ITS MASSIVE TRADE DEFICIT, IF AT
ALL POSSIBLE WITHOUT ALIENATING THE OPEC COUNTRIES.
PAKISTAN'S ATTITUDE ON VIRTUALLY ALL THE ISSUES ON
WHICH STATE REFTEL REQUESTED OUR ASSESSMENT IS COLORED
BY THIS PRIORITY. THE SPECIFIC POINTS BELOW ARE IN
RESPONSE TO STATE REFTEL, AND EMPHASIZE AREAS NOT
COVERED IN DETAIL IN EARLIER REPORTING. MORE BACKGROUND
AND DETAIL ON PAKISTAN'S POSITION ARE GIVEN IN
ISLAMABAD REFTELS.

3. DEVELOPMENT COMMISSION:

(A) FINANCIAL ISSUES:

PAKISTAN IS ALMOST CERTAIN TO BE AN EAGER SUPPORTER
OF OUR DESIRE TO DRAMATIZE THE CURRENT FINANCING NEEDS
OF THE LDCS, ESPECIALLY THE MSAS, AND TO BE A STRONG
PROPONENT OF THE THESIS THAT NON-OIL LDCS NEED A
SUBSTANTIAL INCREMENT IN THE LONG-TERM DEVELOPMENT
ASSISTANCE THEY ARE NOW RECEIVING. PAKISTAN HAS BEEN
IN THE FOREFRONT OF COUNTRIES CALLING FOR A MAJOR
INITIATIVE ON LDCS DEBT. AT THE SEVENTH SPECIAL SESSION,
IT PROPOSED WHAT AMOUNTED TO A GENERAL MORATORIUM
"UNTIL THE PURPOSE FOR WHICH THE AID WAS GIVEN HAS BEEN
ACHIEVED." PAKISTAN'S REACTION TO THE FINANCING
PROPOSALS IN THE SECRETARY'S UN SEVENTH SPECIAL SESSION
ADDRESS HAS BEEN AND WILL BE IN DIRECT PROPORTION TO
THE AMOUNT OF MONEY THAT CAN BE DISBURSED (ESPECIALLY
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TO PAKISTAN) AND THE SPEED WITH WHICH THE PROPOSALS CAN
TAKE EFFECT. PAKISTAN SUPPORTS HIGH AID TARGETS, FIRM
DECLARATIONS BY
THE DCS OF THEIR INTENT TO MEET THEM,
AND AID UNTYING.

(B) OPEC AID:

PAKISTAN IS BETTER AWARE THAN MOST COUNTRIES OF THE IMPORTANCE OF OPEC AID DISBURSEMENTS, HAVING BEEN A MAJOR RECIPIENT OF OPEC AID FOR THE PAST TWO YEARS. PAKISTAN HAS IN GENERAL SUPPORTED PROPOSALS WHICH WOULD INVOLVE OPEC TO A GREATER DEGREE IN INTERNATIONAL AID-GIVING MECHANISMS. WE ARE CERTAIN, HOWEVER, THAT PART OF THIS SUPPORT RESTS ON THE CONVICTION OF THE GOP THAT PAKISTAN WOULD BE A MAJOR BENEFICIARY OF THESE MECHANISMS, AND WOULD THUS CONTINUE TO RECEIVE SUBSTANTIAL AMOUNTS OF OPEC MONEY BOTH DIRECTLY AND INDIRECTLY. ALTHOUGH NO PAKISTANI OFFICIAL HAS EVER SAID AS MUCH TO US, WE DOUBT THAT PAKISTAN WOULD FAVOR PROPOSALS WHOSE PRIMARY AIM WAS TO EXPAND THE RANGE OF OPEC AID RECIPIENTS (AND THUS IN EFFECT REDUCE PAKISTAN'S SHARE OF THE PIE). PAKISTAN IS OF COURSE ALSO JEALOUS OF ITS RELATIONS WITH THE OPEC COUNTRIES AND HAS TRADITIONALLY BEEN VERY RELUCTANT TO CRITICIZE THEM IN THE PRESENCE OF OUTSIDERS. IT IS UNLIKELY TO PUT ANY PRESSURE ON OPEC COUNTRIES UNLESS THE POTENTIAL BENEFITS OF THAT PRESSURE ARE SUBSTANTIAL AND WILL ACCRUE TO PAKISTAN.

(C) FOOD:

PAKISTAN HAS SUPPORTED MOST OF OUR VARIOUS FOOD AID INITIATIVES, AND SUPPORTS IN PARTICULAR THE CREATION OF AN INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT. TO OUR KNOWLEDGE, PAKISTAN HAS NOT TAKEN A POSITION ON THE CREATION OF AN INTERNATIONAL GRAIN RESERVE. ALTHOUGH PAKISTAN EARNS SOME 20 PERCENT OF ITS EXPORTS FROM RICE, IT IS A NET FOOD IMPORTER, WITH CURRENT WHEAT IMPORTS ABOUT 1.5 MILLION TONS A YEAR. WE ASSUME THAT IN THESE CIRCUMSTANCES, AND GIVEN PAKISTAN'S PRECARIOUS BALANCE OF PAYMENTS SITUATION, THE QUESTION OF PAKISTAN'S HOLDING LIMITED OFFICIAL USE

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PART OF AN INTERNATIONAL GRAIN RESERVE WOULD NOT ARISE.

(D) TRADE ISSUES:

PAKISTAN'S TERMS OF TRADE DETERIORATED SHARPLY IN FY 1975, AND OUR IMPRESSION IS THAT THEY HAVE NOT RECOVERED DURING THE CURRENT FISCAL YEAR. THIS IS A SOURCE OF GREAT CONCERN TO PAKISTAN, ALTHOUGH THE COMPOSITION OF PAKISTAN'S EXPORTS AND IMPORTS MAKES INDEXING A LESS POPULAR REMEDY HERE THAN IT IS ELSEWHERE. PAKISTAN'S SINGLE GREATEST GOAL IN THIS AREA IS BETTER MARKET ACCESS FOR ITS EXPORTS OF COTTON YARN AND TEXTILES. ELIMINATION OF ALL QUOTA RESTRICTIONS WOULD BE PAKISTAN'S PREFERRED SOLUTION, BUT ANY ARRANGEMENT WHICH IMPROVED PAKISTAN'S ACCESS TO DEVELOPED MARKETS FOR ITS MAJOR PRODUCTS WOULD HELP. THE GOP REGARDS

THIS AS OF LESS IMMEDIATE
IMPORTANCE THAN THE FINANCIAL MEASURES CIEC WILL DISCUSS.

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(E) INVESTMENT AND CAPITAL MARKETS:

PAKISTAN HAS BEEN LESS INTERESTED IN INVESTMENT AND
CAPITAL MARKET ACCESS ISSUES THAN IN INTERNATIONAL AID
MECHANISMS, LARGELY BECAUSE THE FUNDS SUPPLIED THROUGH
WORLD CAPITAL MARKETS ARE ON COMMERCIAL TERMS WHILE
PAKISTAN HAS NEEDED CONCESSIONAL LENDING. THE AIDE-
MEMOIRE THE GOP GAVE US IN CONNECTION WITH THE SEVENTH
SPECIAL SESSION (75 ISLAMAMBAD 5952), HOWEVER, DID COME
OUT IN FAVOR OF ENCOURAGING MORE FOREIGN INVESTMENT IN
LDCS, ESPECIALLY THROUGH SUCH VEHICLES AS MULTILATERAL
GUARANTEES ON INVESTMENT AND AGREEMENT ON THE PRINCIPLES
FOR REPATRIATION OF PROFITS AND COMPENSATION FOR
NATIONALIZATION. WE WOULD THUS EXPECT PAKISTAN TO BE
RECEPTIVE BOTH TO PROPOSALS FOR BROADENING LDC ACCESS
TO CAPITAL MARKETS AND TO A CODE OF CONDUCT FOR

MULTINATIONAL CORPORATIONS. IT IS WORTH NOTING, IN THIS CONNECTION, THAT PAKISTAN HAS RECEIVED VERY LITTLE NEW FOREIGN INVESTMENT IN RECENT YEARS, LARGELY BECAUSE OF LIMITED OFFICIAL USE

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THE MUTUAL SUSPICION THAT EXISTS BETWEEN THE GOP AND THE DOMESTIC AND FOREIGN INVESTMENT COMMUNITIES. MUCH OF WHAT HAS COME IN HAS BEEN IN THE FORM OF JOINT VENTURES BETWEEN THE GOP AND INVESTORS (USUALLY GOVERNMENT ENTITIES) IN OPEC COUNTRIES. WHILE SUCH INVESTMENT IS DESCRIBED AS "PRIVATE," MOST PROJECTS HAVE RESULTED FROM GOVERNMENT-TO-GOVERNMENT AGREEMENTS. (FOR MORE ON THE INVESTMENT PROBLEM, SEE ISLAMABAD 11653.)

(F) TECHNOLOGY:

PAKISTAN HAS GENERALLY SUPPORTED THE LDC POSITION ON TECHNOLOGY, TRANSFER. THE GOP RECOGNIZES THAT DEVELOPED COUNTRY TECHNOLOGY IS NEEDED TO ACCELERATE PAKISTAN'S DEVELOPMENT, BUT WOULD LIKE TO GET IT WITH AS FEW STRINGS ATTACHED AS POSSIBLE.

4. FINANCE COMMISSION:

(A) INDEXATION:

PAKISTAN HAS NO DIRECT STAKE IN THE OUTCOME OF DISCUSSIONS OF MAINTENANCE OF VALUE OF OPEC COUNTRY ASSETS AND GUARANTEES AGAINST THEIR EXPROPRIATION OR SEIZURE. WE WOULD EXPECT THE PAKISTAN POSITION TO BE DICTATED BY THE GOP DESIRE TO MAINTAIN SOLIDARITY WITH ITS MUSLIM FRIENDS WHENEVER POSSIBLE.

(B) TRIANGULAR INVESTMENT:

PAKISTAN WELCOMES INVESTMENTS WHICH COMBINE OPEC MONEY AND WESTERN TECHNOLOGY. IT IS NO ACCIDENT THAT SUCH INVESTMENTS IN PAKISTAN HAVE TENDED TO BE IN THE PUBLIC SECTOR. PAKISTAN'S ATTITUDE IN AN INTERNATIONAL DISCUSSION OF THIS ISSUE, HOWEVER, IS LIKELY TO BE AFFECTED BY THE ATTITUDE OF THE OPEC COUNTRIES. IF THEY ENTER THE DISCUSSION RELUCTANTLY, PAKISTAN IS UNLIKELY TO PUSH HARD FOR MORE TRIANGULAR INVESTMENT. OPEC "INVESTMENT" IS A MUCH LESS IMPORTANT SOURCE OF FUNDS FOR PAKISTAN THAN OPEC AID.

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(C) DEVELOPING COUNTRY CAPITAL MARKETS:

THIS IS AN ISSUE WITH LITTLE OR NO "SEX APPEAL" IN PAKISTAN. THE GOP WOULD PROBABLY NOT BE HOSTILE TO THE IDEA OF SUCH A DISCUSSION BUT WOULD CONSIDER IT IRRELEVANT TO PAKISTAN'S NEEDS.

5. GENERAL: PAKISTAN VALUES THE OPEC-LDC ALLIANCE, PARTLY BECAUSE OF PAKISTAN'S OPEC AID RECEIPTS, PARTLY BECAUSE IT FITS IN WITH PAKISTAN'S DESIRE TO EXERCISE LEADERSHIP IN MUSLIM AND THIRD WORLD COUNCILS, AND PARTY CAUSE IT HOPES THAT OPEC MUSCLE CAN BE MADE TO WORK FOR PAKISTAN AND OTHER HARD-HIT LDCS TO SOME DEGREE. IT WILL THEREFORE BE VERY CHARY OF BREAKING SOLIDARITY. ON THE OTHER HAND, PAKISTAN IS WELL AWARE OF ITS CONFLICTS OF INTEREST WITH THE OPEC COUNTRIES. GOP OFFICIALS HAVE TOLD US THAT THE OPEC COUNTRIES "DO NOT FULLY UNDERSTAND" PAKISTAN'S BALANCE OF PAYMENTS PROBLEMS. SOME STRAINS IN THE OPEC/LDC GROUP MAY OCCUR AS THE COMMISSIONS GET INTO DETAILED DISCUSSIONS OF THE MSA BALANCE OF PAYMENTS CRISIS. THE GOP SEEMS TO REGARD THE G-19 AS THE MAJOR FORUM FOR COORDINATING POSITIONS ON CIEC WITH THE OTHER OPEC/LDC PARTICIPANTS. IF SERIOUS DISAGREEMENTS DEVELOP WITH OPEC COUNTRIES, WE WOULD EXPECT THE GOP TO AIR THESE BILATERALLY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, LESS DEVELOPED COUNTRIES, COMMITTEES, BALANCE OF PAYMENTS DEFICITS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ISLAMA01285
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760045-0354
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760280/aaaacryf.tel
Line Count: 305
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 20560, 76 ISLAMABAD 5952, 76 ISLAMABAD 5
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 20 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 APR 2004 by greeneet>; APPROVED <27 MAY 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PAKISTAN POSITION IN CIEC
TAGS: ENRG, ECON, PK, CIEC, OPEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006